



North Carolina Revenue Laws Study Committee

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Local Government Authority for Tax Anticipation Notes

- ▶ Authority found in NC Constitution Article 5 Section 4 and NC GS 159-169
 - Backed by GO pledge
 - Limited to 50% of uncollected taxes
 - Must be repaid no later than 30 days after fiscal year end
 - Can not be renewed
- ▶ Current staff recalls one Tax Anticipation Note (TAN) authorized by the LGC in early 1980's

Local Government Alternatives to Issuing Tax Anticipation Notes

- ▶ Maintain at least 8% General Fund Balance available for appropriation
- ▶ Offer early payment discounts for property taxes
- ▶ Schedule discretionary expenditures after bulk of taxes are collected
- ▶ Work with vendors if cash flow difficulties occur
- ▶ Appeal to civic minded tax payers for early payments

State Government Authority for Tax Anticipation Notes

- ▶ Authority found in NC Constitution Article 5 Section 3 and NC GS 142-19
- ▶ Budget Director may authorize and direct the State Treasurer to borrow
- ▶ Budget Director must have consent of Governor and Council of State authorize
- ▶ Carries GO pledge
- ▶ Limited to 50% of anticipated taxes to be collected during the fiscal year

Other Facts To Consider

- ▶ Borrowing for cash flows will be noted by the rating agencies
 - This will highlight a lower level of reserves.
- ▶ Taxable vs. tax exempt borrowing
 - To qualify as a tax exempt borrowing, the General Fund must be out of cash.
- ▶ Rates in current market would be .60% to 1.00% for a taxable borrowing
 - There would be interest costs of \$500 to \$833 per \$1 million borrowed per month.

Borrowing From Retirement System

- ▶ **Constitutional Prohibition. Article 5 Section 6:**
- ▶ Retirement funds. Neither the General Assembly nor any public officer, employee, or agency shall use or authorize to be used any part of the funds of the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System for any purpose other than retirement system benefits and purposes, administrative expenses, and refunds; except that retirement system funds may be invested as authorized by law, subject to the investment limitation that the funds of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System shall not be applied, diverted, loaned to, or used by the State, any State agency, State officer, public officer, or public employee.
- ▶ Language seems very clear.
- ▶ Would possibly draw legal challenges.

Borrowing From Escheats Fund

- ▶ Similar Constitutional Prohibitions. Article 9 Section 10 states that the Escheat funds shall be used

to aid worthy and needy students who are residents of this State and are enrolled in public institutions of higher education in this State.

- ▶ Principal of the Escheats Fund has been drawn down significantly over the last few years.
- ▶ Not a lot of room to borrow from it without forcing a liquidation of assets that will cost the State money.

Costs of Borrowing From Retirement System or Escheats Fund

Cost of borrowing funds would be high - perhaps in the area of 15% because:

- ▶ Any lending from the funds would have to match the return we are getting from other current investments. (fiduciary responsibility)
- ▶ State has not made its Actuarial Required Contribution to the fund.
- ▶ Current economic conditions and the projected State budget deficit.

State would not be wise to borrow from the pool when it could probably get a better rate from other forms of borrowing.